Why is there a need to organize?

- Economic need
- Desire for a particular service

Why do producers organize?

- Lack sufficient markets for products
- Lack satisfy sources of production inputs
- Lack service related to farming
- Develop source of additional income

What is a COOPERATIVE?

A business owned and controlled by the people who use its services for their mutual benefit.

Why are cooperatives organized?

- Improve bargaining power
- Reduce production costs
- Improve product or service quality
- Expand new and existing market opportunities
- Obtain products or services otherwise unavailable
- Increase income

3 Distinctive features of Cooperatives

- User-Owner Principle
- User-Control Principle
- User-Benefit Principle
**User-Owner Principle**
"People who own and finance the cooperative are those who use it."
- Direct contribution through membership fees or stock purchase
- Agreement to withhold a portion of cooperative profits
- Assessments based on units of product sold or purchased

**User-Control Principle**
"People who use the cooperative control it (one member, one vote)."
- Member-users control the business
- Elect board of directors and vote on structure and operation
- Board sets policy and is responsible for managing the cooperative business

**User-Benefit Principle**
"To provide and distribute benefits to members based on use."
- Members receive services otherwise not available
- Members purchase quality inputs, usually at lower cost
- Members utilize market access otherwise not available
- Members benefit from distribution of profits based on individual volume with the cooperative

**Considering Organizing a Cooperative?**
- Learn about the legal, economic, and financial aspects of cooperative business
- Get assistance from cooperative development experts, an attorney, and an accountant
- Careful planning increases the chance of success
Ten Steps for Effective Organizing

- Hold an exploratory meeting
- Select a steering committee
- Conduct a survey of potential members
- Analyze markets for products, supplies, and services
- Prepare a business plan
- Adopt bylaws and select a board of directors
- Incorporate the cooperative as a business (for profit or not-for-profit)
- Find investment funds
- Hire management & employees and acquire facilities & equipment
- Begin operations

Potential Pitfalls to Avoid

- Lack of clearly identified mission
- Inadequate planning
- Failure to use experience advisors
- Poor assumptions
- Lack of quality member leadership
- Lack of competent management
- Failure to identify and minimize risks
- Lack of member commitment
- Lack of financing
- Inadequate communication

General Rules for Success

- Use advisors and committees effectively
- Keep members informed and involved
- Maintain good board-manager relations
- Conduct business-like meetings
- Follow sound business practices
- Forge linkages with other cooperatives

*Source: "How to Start a Cooperative", USDA Rural Business Cooperative Service, 1996

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